



08027382

Main Processing  
Section

FEB 27 2008

Washington, DC  
105UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III

## OMB APPROVAL

OMB Number: 3235-0123  
Expires: February 28, 2010  
Estimated average burden  
hours per response: 12.00

## SEC FILE NUMBER

8.51893

## FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 ThereunderREPORT FOR THE PERIOD BEGINNING 01/01/2007 AND ENDING 12/31/2007  
MM/DD/YY MM/DD/YY

## A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: LIBERTY LIFE SECURITIES LLC  
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
100 Liberty Way

## OFFICIAL USE ONLY

FIRM I.D. NO.

(No. and Street)

Dover

NH

03820

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

John T. Treece

(603) 749-2600 ext. 36281

(Area Code - Telephone Number)

## B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Ernst &amp; Young LLP

(Name - if individual, state last, first, middle name)

5 Times Square

New York

NY

10036

(Address)

(City)

(State)

(Zip Code)

## CHECK ONE:

- ☒ Certified Public Accountant  
☐ Public Accountant  
☐ Accountant not resident in United States or any of its possessions.

PROCESSED

MAR 06 2008

THOMSON  
FINANCIAL

## FOR OFFICIAL USE ONLY

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SEC 1410 (06-02)

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

JTS  
3/5/08

## OATH OR AFFIRMATION

I, John T. Treace, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of LIBERTY LIFE SECURITIES LLC, as of December 31, 2007, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

John T. Treace  
Signature

PRESIDENT, CO-CCO, FINOPS  
Title

Vicki L. Laplume  
Notary Public



This report \*\* contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☒ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☐ (l) An Oath or Affirmation.
- ☒ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).**

AUDITED FINANCIAL STATEMENTS AND  
SUPPLEMENTAL INFORMATION

Liberty Life Securities LLC  
Year ended December 31, 2007  
With Report and Supplementary Report of Independent Registered  
Public Accounting Firm

# Liberty Life Securities LLC

## Audited Financial Statements and Supplemental Information

Year ended December 31, 2007

### Contents

Report of Independent Registered Public Accounting Firm .....	1
---	---

#### Financial Statements

Statement of Financial Condition .....	2
Statement of Operations.....	3
Statement of Changes in Member's Equity .....	4
Statement of Cash Flows .....	5
Notes to Financial Statements.....	6

#### Supplemental Information

Schedule I—Computation of Net Capital Under Rule 15c3-1 of the Securities and Exchange Commission .....	10
Schedule IV— Reconciliation of the Computation of Net Capital Under Rule 15c3-1 of the Securities and Exchange Commission in this Audit Report to the Company's Unaudited Form X-17a-5 Part IIA.....	10
Schedule II—Computation for Determination of Reserve Requirements Under Rule 15c3-3 of the Securities and Exchange Commission .....	11
Schedule III—Information Relating to Possession or Control Requirements Under Rule 15c3-3 of the Securities and Exchange Commission .....	11
Supplementary Report of Independent Registered Public Accounting Firm on Internal Control Required by SEC Rule 17a-5 (g)(1) .....	12

## Report of Independent Registered Public Accounting Firm

Board of Managers  
Liberty Life Securities LLC

We have audited the accompanying statement of financial condition of Liberty Life Securities LLC (the Company) as of December 31, 2007, and the related statements of operations, changes in member's equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Liberty Life Securities LLC at December 31, 2007, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules I, II, III and IV is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Ernst & Young LLP*

February 22, 2008

Liberty Life Securities LLC  
Statement of Financial Condition

December 31, 2007

<b>Assets</b>	
Cash	\$387,846
Accounts receivable	76,795
Prepaid expense	9,436
Commission receivable	18,323
Total assets	<u>\$492,400</u>
<b>Liabilities and member's equity</b>	
Liabilities:	
Due to Liberty Life Assurance Company of Boston	\$158,937
Accounts payable	87,856
Commission payable	2,667
Total liabilities	<u>249,460</u>
Member's equity:	
Contributed capital	200,000
Retained earnings	42,940
Total member's equity	<u>242,940</u>
Total liabilities and member's equity	<u>\$492,400</u>

*See accompanying notes.*

# Liberty Life Securities LLC

## Statement of Operations

Year ended December 31, 2007

### Revenues:

Commission income	\$1,536,237
Miscellaneous income	35,000
Total revenues	<u>1,571,237</u>

### Expenses:

Commission expense	1,140,923
Salary expense	257,323
General expense	228,875
Total expenses	<u>1,627,121</u>
Net loss	<u>\$ (55,884)</u>

*See accompanying notes.*

# Liberty Life Securities LLC

## Statement of Changes in Member's Equity

Year ended December 31, 2007

	<u>Contributed Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance at January 1, 2007	\$200,000	\$98,824	\$298,824
Comprehensive loss:			
Net loss	—	(55,884)	(55,884)
Comprehensive loss			(55,884)
Balance at December 31, 2007	<u>\$200,000</u>	<u>\$ 42,940</u>	<u>\$242,940</u>

*See accompanying notes.*



# Liberty Life Securities LLC

## Statement of Cash Flows

Year ended December 31, 2007

### Operating activities

Net loss \$ (55,884)

Adjustments to reconcile net income to net cash provided by operating activities:

Accounts receivable (2,093)

Prepaid expense 9,018

Commission receivable (992)

Due to Liberty Life Assurance Company of Boston (24,504)

Accounts payable (22,371)

Commissions payable 334

Net cash used in operating activities (96,492)

Net decrease in cash (96,492)

Cash at beginning of year 484,338

Cash at end of year \$387,846

*See accompanying notes.*

# Liberty Life Securities LLC

## Notes to Financial Statements

December 31, 2007

### **1. Nature of Business and Organization**

Liberty Life Securities LLC (the Company) acts as a retail broker/dealer distributing variable annuity contracts and variable life insurance contracts issued by insurance companies directly to institutional and individual investors in the United States. Additionally, the Company acts as a retail broker/dealer distributing redeemable securities issued by open-end and closed-end management investment companies.

The Company is wholly owned by Liberty Life Assurance Company of Boston (the Member or Liberty Life). Liberty Life is wholly owned by Liberty Life Holdings, Inc., which is 90% owned by Liberty Mutual Insurance Company (Liberty Mutual) and 10% owned by Liberty Mutual Fire Insurance Company. Liberty Mutual Insurance Company and Liberty Mutual Fire Insurance Company are both wholly owned by Liberty Mutual Group, Inc. Liberty Mutual Group, Inc. is wholly owned by LMHC Massachusetts Holdings Inc., which is wholly owned by Liberty Mutual Holding Company Inc.

Liberty Life Securities LLC and Liberty Life Distributors LLC, both wholly owned by Liberty Life Assurance Company of Boston, will be merged in 2008. Effective January 1st, 2008 Liberty Life Securities LLC became the distributor of the business previously distributed by Liberty Life Distributors LLC. In March 2008, the two entities under common control will be combined. The resulting entity will be Liberty Life Securities LLC.

The Company is registered as a broker/dealer with the Securities and Exchange Commission and is a member of the National Association of Securities Dealers.

The financial statements have been prepared from the records maintained by the Company and are not necessarily indicative of the financial condition or results of operations that would have occurred if the Company had been operating as an unaffiliated corporation (see Note 3).

### **2. Significant Accounting Policies**

#### **Basis of Accounting**

The Company's basis of accounting is in accordance with accounting principles generally accepted in the United States.

## Liberty Life Securities LLC

### Notes to Financial Statements (continued)

#### 2. Significant Accounting Policies (continued)

##### Revenue Recognition

Commissions are calculated as a contractual percentage of sales and are recognized on a trade-date basis.

##### Income Taxes

The Company is organized as a Limited Liability Corporation and has elected to be treated as a division for federal and state income tax reporting purposes. As such, there is no provision for federal or state income taxes as the Member is taxed on the Company's earnings. A federal and state tax benefit of \$17,897 and \$4,750, respectively would have been recorded if the Company were taxed as a C Corporation and not a division.

##### Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

#### 3. Related-Party Transactions

##### Services Agreement

Under an amended Service Agreement between the Company, Liberty Life, and Liberty Mutual, Liberty Mutual provides personnel, office space, equipment, computer processing and other services. The Company reimburses Liberty Mutual for these services at cost, and for any other special services supplied at the Company's request. Substantially all of the Company's salary and general expenses incurred in 2007 related to this agreement.

# Liberty Life Securities LLC

## Notes to Financial Statements (continued)

### 4. Benefit Plans

Significant benefit plans are sponsored by Liberty Mutual and the associated costs are shared by members of the Liberty Mutual Holding Company, Inc and its subsidiaries (Liberty Companies). Liberty Mutual's sponsored plans are summarized as follows:

#### (a) *Pension Plan*

Liberty Mutual sponsors noncontributory defined benefit pension plans (the Plans) covering U.S. employees who have attained age 21 and have completed one year of service and Canadian employees who have completed one year of service. The benefits are based on years of service and the employee's "final average compensation" which is the employee's average annual compensation for the highest five consecutive calendar years during the ten years immediately preceding retirement.

Assets of the Plans consist primarily of investments in life insurance company separate accounts and a collective investment trust fund, which invests primarily in fixed income and Standard and Poor's 500 Index of equity securities.

#### (b) *Postretirement Benefits*

Liberty Mutual provides certain health care and life insurance benefits (postretirement) for retired employees. Substantially all employees may become eligible for these benefits if they reach retirement age and have ten years of service working for the Liberty Companies. Alternatively, retirees may elect certain prepaid health care benefit plans. Life insurance benefits are based upon a participant's final compensation subject to the plan maximum.

#### (c) *Thrift-Incentive Plan*

Liberty Mutual sponsors a defined contribution savings plan for all employees of the Liberty Companies who meet certain eligibility requirements. During 2007 employees were permitted to contribute a percentage of their annual compensation on a combined before-tax and after-tax basis, subject to certain limitations imposed by the Tax Reform Act of 1986. In 2007 Liberty Mutual matched a percentage of contributions made by employees.

The total amount charged to the Company for the above three benefit plans was \$29,201 in 2007.

## Liberty Life Securities LLC

### Notes to Financial Statements (continued)

#### **5. Net Capital Requirements**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital such that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1.

At December 31, 2007, the Company had net capital and a minimum net capital requirement of \$153,035 and \$25,000, respectively. The Company's ratio of aggregate indebtedness to net capital at December 31, 2007 was 1.63:1.

## Supplemental Information

Liberty Life Securities LLC

Schedule I—Computation of Net Capital Under Rule 15c3-1  
of the Securities and Exchange Commission  
and

Schedule IV—Reconciliation of the Computation of Net Capital Under Rule  
15c3-1 of the Securities and Exchange Commission in this Audit Report  
to the Company's Unaudited Form X-17a-5 Part IIA

December 31, 2007

Aggregate indebtedness	<u>\$249,460</u>
Net capital:	
Member's capital	242,940
Less nonallowable assets	<u>89,905</u>
Total net capital	<u>\$153,035</u>
Net capital requirements:	
\$25,000 or 6 2/3% of aggregate indebtedness, whichever is greater	\$ 25,000
Net capital in excess of requirements	<u>128,035</u>
Total net capital	<u>\$153,035</u>
Ratio of aggregate indebtedness to net capital	1.63:1

No differences exist between the computation of aggregate indebtedness and net capital under Rule 15c3-1 included in this Audit Report and the computations included in the unaudited Form X-17a-5, Part IIA filing as of December 31, 2007.

Liberty Life Securities LLC

Schedule II—Computation for Determination of Reserve  
Requirements Under Rule 15c3-3 of the Securities and  
Exchange Commission

and

Schedule III—Information Relating to Possession or Control Requirements  
Under Rule 15c3-3 of the Securities and  
Exchange Commission

December 31, 2007

The Company is exempt from Rule 15c3-3 under the provisions of paragraph (k)(2)(i) of that rule at December 31, 2007.



## Supplementary Report of Independent Registered Public Accounting Firm on Internal Control Required by SEC Rule 17a-5(g)(1)

Board of Managers  
Liberty Life Securities LLC

In planning and performing our audit of the financial statements of Liberty Life Securities LLC (the Company), as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States, we considered its internal control over financial reporting (internal control), as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company, including consideration of control activities for safeguarding securities. The study included tests of such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons and recordation of differences required by rule 17a-13
2. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in

conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control and the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures, as described in the second paragraph of this report, were adequate at December 31, 2007 to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Managers, management, the SEC, and other regulatory agencies that rely on rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

*Ernst & Young LLP*

February 22, 2008

**END**